HOUSING MARKET OUTLOOK

Kelowna CMA

Canada Mortgage and Housing Corporation

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Existing Home Sales Level Out in 2008

Strong demand will keep Kelowna area housing starts and existing home sales at near record high levels in 2008. Robust employment growth will be a key driver, fueling in-migration and demand for housing. Kelowna will continue to attract out-of-area buyers seeking second residences and resort-oriented homes. Rising wages, growth in home equity and low interest rates will also help support high levels of new home construction and sales activity next year.

Kelowna's resale market will record another strong performance in 2008. Expect sales of existing homes to maintain a blistering pace, edging down slightly as rising construction costs dampen growth in demand. Home sales, led by the multi-family sector, are on track to reach record highs in 2007. The supply of listings has steadily increased during the past year. With demand leveling out and the supply of listings up sharply, the pace of price growth will begin to slow in 2008. For most of 2008, the Kelowna area resale market will remain in seller's market territory.

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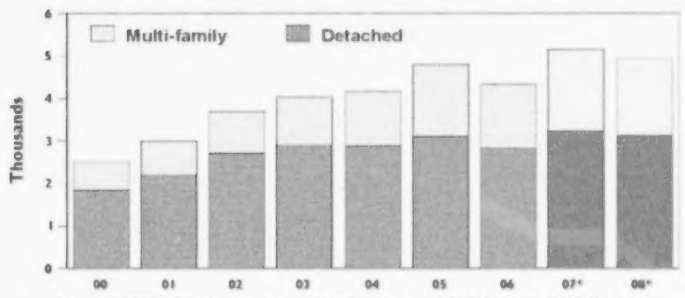
Figure 1

Sales Stay At High Levels



Source: CMHEB - Multiples: Apartment and all Townhouses; CMHC Forecast. MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

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HOME TO CANADIANS

Sales of existing detached homes will jump by almost 15 per cent in 2007 as strong demand in combination with better supply and selection boost sales activity to an all time high. Black Mountain, Lake Country, Shannon Lake and Upper Mission have posted the biggest increase in sales. The supply of active singles listings has risen to the highest level in six years. Big gains in home equity have drawn more sellers into the market place, pushing up supply. Expect this year's upswing in detached home sales to level out and moderate slightly in 2008.

The average annual sale price of an existing detached home will jump 19 per cent to $515,000 in 2007, recording double-digit increases for the sixth straight year. Prices will have doubled since 2003. All neighbourhoods and types of detached units continue to see strong upward pressure on prices. Buyers with equity from previous homes are the focus of resale singles demand. This includes move-up and move-down buyers and retirees. First-time buyer activity has declined in the face of soaring prices. Detached homes priced at less than $400,000 currently account for only 11 per cent of singles listings, down from 64 per cent just three years ago. Look for smaller price increases next year as the market adjusts to rising supply and slightly reduced demand. The average annual resale detached house price will climb another nine per cent to $561,000 in 2008.

The Core area, Rutland, Westbank and Glenrosa will be the most modestly priced locations. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid-priced detached homes. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna will command the highest prices.

Sales of apartment condominiums and townhouse have surged ahead in 2007 and are forecast to jump by 25 and 30 per cent, respectively, by year-end. Price, relative to the cost of detached units and lifestyle, are the key drivers. With the price of detached homes up sharply, more first-time buyers will turn to multiple-family homes. Higher density housing has become more widely accepted among younger Kelowna area buyers, representing a significant shift in buyer attitudes. Retirees, move-down buyers and others seeking resort and lifestyle-oriented housing are also big sources of demand. In addition, sustained low rental vacancy rates, rising rents, the low cost of financing and prospects for significant equity gains have led to more interest by investors.

Strong demand for both apartment condominiums and townhouses will carry over into 2008. Growth in demand for resort-oriented condominiums may begin to slow later next year as the Edmonton and Calgary real estate markets cool down. Both locations are now recording more modest price growth compared to last year. Alberta buyers relying on gains in home equity to finance the purchase of second residences in Kelowna may be less active next year.

On the supply side, high levels of construction activity have pushed up the supply of condominium listings. The supply of active condominium listings reached the highest monthly level ever in August. Townhouse listings have seen a smaller increase, due in part to the growing demand for modestly priced family-oriented housing.

Strong, more broadly-based demand will continue to drive up condominium and townhouse prices this year and next. However, price gains will be more modest in 2008, reflecting intense price competition from an increasingly well supplied market.

Figure 2

Price Growth to Slow

New Home Construction at Record Highs

Kelowna area housing starts will total 2,750 units in 2007, matching 2005's record high. Growing demand for multi-family housing will keep new home construction at high levels in 2008. Expect housing starts to reach the 2,700 unit mark again next year. Strong population growth, and more recently, sustained demand for resort-oriented housing and second residences are the main factors driving Kelowna's upswing in new home construction activity. Absorption of new homes remains brisk. The inventory of completed and unoccupied units is low, pointing to more opportunity for expansion in 2008. Building industry capacity constraints, primarily an ongoing shortage of labour, remain a factor limiting new construction.

Starts of detached units will edge lower in 2007 and 2008, pulled down by rising construction costs. While move-up buyers continue to account for the lion's share of new singles demand, higher resale house prices and greater availability of mid price building lots have enabled developers to better compete for entry-level buyers.

Lifestyle oriented housing and neighbourhoods which bring together the right combination of housing types, form, setting and amenities, will stay front and centre. Larger, multiple-phase developments have become the norm. Lake and valley view properties will remain the strongest performers.

Construction activity will follow lot supply. Lot supply has barely kept pace with demand, leaving developers scrambling to bring more on stream. Single detached home development will shift outward as municipalities extend infrastructure into new areas. Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of building lots - have moved ahead with their final phases. Lake Country, North Glenmore, Black Mountain, Kirschner Mountain and the Shannon Lake area have seen new, multiple-phase subdivisions come on stream in the past 18-24 month period.

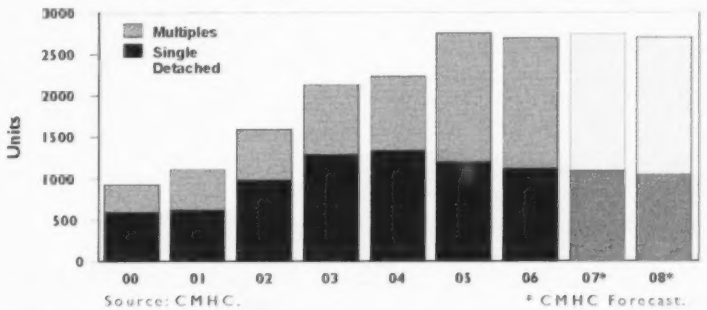
Rising lot prices will continue to push up the cost of new housing. Lot prices have shot up in response to strong demand and tight supply. The annual median lot price will break the $200,000 mark in 2007. The $160,000-$175,000 price range now represents the low end in most new subdivisions. Premium lake and valley view lots are commanding prices in the $225,000-$250,000 plus range.

Strong demand for upscale homes, rising lot prices and extended construction periods have all contributed to rising new home prices. The average time to build a detached unit has increased from just over four months in 2000 to nine months by September 2007. A shortage of labour, larger, more complex homes and challenging hillside building sites have all contributed to longer build times. Expect the annual average new house price to jump 15 per cent to 620,000 in 2007 and another ten per cent next year.

Apartment condominium starts will climb to a record high in 2007, accounting for almost half of all new home construction activity. New condominium absorption remains strong and inventories of completed and unoccupied units are low. With 80 per cent of condominium units under construction already sold and many projects nearing the development stage reporting strong pre-sales, expect condominium starts to remain at high levels in 2008.

Figure 3

Strong Demand For Condominiums Keep Housing Starts at Record Highs



Source: CMHC. * CMHC Forecast.

Retirees, move-down buyers and the resort and lifestyle markets will all remain key sources of condominium demand in 2008. The latter has become the fastest growing segment of the condominium market. Look for more first-time buyer-oriented projects in 2008. With few detached units available for less than $400,000, more first-time buyers are turning to multi-family housing. Sales among projects targeting first-time buyers have been strong.

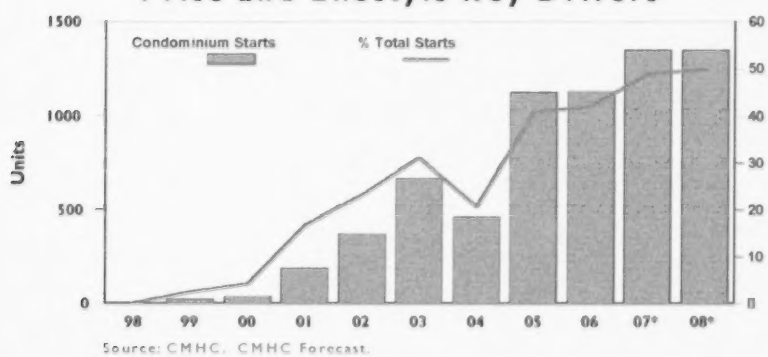
Kelowna's condominium market continues to move in new directions. Kelowna is seeing more, larger projects, many including a mix of low and high rise apartment condominiums and townhouses. More and even higher towers are on the way. Mixed residential and commercial use projects are now the norm.

Condominium prices have increased sharply with each new project pushing the price envelope to new highs. The uptick in prices reflects both rising construction costs and strong demand for upscale homes. Longer build times due to shortages of skilled labour have also contributed to rising costs. Balancing pre-sales with rapidly escalating construction costs has emerged as a key challenge for developers of multi-family housing. Most builders have now implemented phased pricing schemes, releasing blocks of units at prices which take into account changing construction costs.

Demand for resort-oriented condominiums will remain strong in 2008, fueled by an aging population, growing BC and Alberta economies and growth in home equity. Many resort dwellings and other types of lifestyle-oriented housing are second residences, often purchased in anticipation of retirement. Buyers from Alberta and the Vancouver area represent the biggest sources of demand. Notwithstanding a positive demand outlook for this type of housing, recent changes in the Alberta real estate market may dampen growth in demand next year. More builders are now limiting "assignments", transactions by which buyers may purchase and resell condominium units, often before the project is complete. This could discourage some investors. Also, the resort housing sector is becoming increasingly competitive. Many development proposals are moving through the approval process in the Okanagan and elsewhere across southern BC – all of which are competing for the same buyer group. The Kelowna area condominium market faces some potential for short term over supply later next year.

Figure 4

Condominiums in Demand - Price and Lifestyle Key Drivers



Source: CMHC, CMHC Forecast.

Singles Starts Follow Lot Supply

Neighbourhood	2007	2003
Black Mountain	69	57
Core Area	23	145
Dilworth Mountain	19	39
Lake Country	102	26
Lower Mission	16	46
North Glenmore	65	55
Shannon Lake	89	23
S.E. Kelowna	22	37
Upper Mission	157	259
Westbank	79	14

Source: CMHC. * Jan. - Sept.

Townhouse projects offering entry level and mid priced units will remain especially strong performers in 2008. Look for new projects in North Glenmore, Black Mountain and the Westbank areas.

Despite sustained low vacancy rates, the Kelowna area will see few rental housing starts in 2007 and 2008. The viability of new multi-family rental housing is problematic given current rents and high land prices and construction costs. The scarcity sites are also challenges for developers of rental housing. With demand for condominiums on the upswing, builders are, for now, focusing on the home ownership market.

Employment Growth Fuels Housing Demand

The Kelowna area economy will continue to expand, churning out jobs in 2008. Strong employment growth will, in turn, boost in-migration and demand for housing. The influx of buyers seeking second residences and resort housing will also contribute to demand for goods and services. New jobs will be added in the construction and construction related manufacturing, trade, health care, personal services and tourism sectors. The forest products industry will face another challenging year in 2008. Reduced demand south of the border, declining lumber prices, rising Canadian dollar and supply issues stemming from the pine beetle epidemic have led to some job losses at local operations. With the Canadian dollar now at par with US currency, the Okanagan can expect to see fewer US visitors next year. Despite ongoing uncertainty within the forest products industry and the prospect of declining US tourist visits, Kelowna area employment is forecast to grow by three per cent this year and 2.5 per cent in 2008.

Diversification remains the Kelowna area economy's greatest strength. The Kelowna International Airport and UBC Okanagan (University of British Columbia – Okanagan campus) have emerged as key growth sectors. UBC Okanagan has become a major economic driver since it's creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Student enrollment is projected to reach 7,500 by 2009, up from less than 4000 in 2006.

Kelowna's airport runway will be extended next year to accept direct overseas flights. Improved accessibility will enhance the area's appeal to both tourists and potential home buyers. Other projects include the expansion of Kelowna General Hospital to include health care services currently available only in Vancouver, an important consideration for retirees seeking to relocate to this region.

The Kelowna CMA will welcome a new municipality in 2008. The incorporation of Westbank and other neighbourhoods located on the west side of Lake Okanagan will generate additional economic activity and employment growth. The prospects of a new bridge across Lake Okanagan and new health care facilities and recent expansion of retail services will attract more home buyers to the West Side.

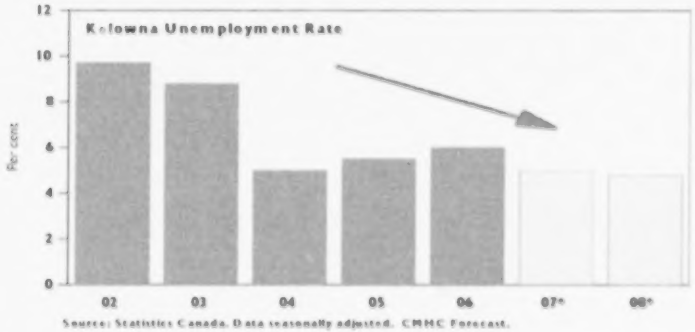
A shortage of workers now extends across all industry sectors and together with high housing costs has become a constraint to economic growth. Kelowna's unemployment rate is expected to remain near the lowest levels in over a decade.

Job opportunity will attract people to BC. Just over 100,000 people will come to BC during 2007 and 2008. Historically people moving to British Columbia from other provinces have been a big source of Kelowna area housing demand. A booming Kelowna area economy and high Vancouver home prices have also led to high levels of intra-provincial migration – people moving to Kelowna from other areas within BC. The Kelowna area population will, exclusive of seasonal in-migrants, grow by 2.5 - 3.0 per cent in 2008.

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range.

Figure 5

Unemployment Rate Drops in Half Since 2002



Source: Statistics Canada. Data seasonally adjusted. CMHC Forecast.

Forecast Summary Kelowna CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales (1)	4,570	5,256	4,790	5,500	14.8	5,200	-5.5
MLS® New Listings (1)	7,289	7,883	7,432	9,100	22.4	9,000	-1.1
MLS® Average Price ($) (2)	303,589	352,228	432,056	515,000	19.2	561,000	8.9
New Home Market							
Starts:							
Single-Detached	1,342	1,205	1,122	1,100	-2.0	1,050	-4.5
Multiples	882	1,550	1,570	1,650	5.1	1,650	0.0
Semi-Detached	148	112	170	75	-55.9	75	0.0
Row/Townhouse	171	206	268	225	-16.0	200	-11.1
Apartments	563	1,232	1,132	1,350	19.3	1,350	0.0
Starts - Total	2,224	2,755	2,692	2,750	2.2	2,700	-1.8
Average Price ($):							
Single-Detached	394,377	422,928	538,658	620,000	15.1	680,000	9.7
Median Price ($):							
Single-Detached	349,900	374,000	469,000	540,000	15.1	590,000	9.3
New Housing Price Index (% chg) (B.C.)	5.3	4.8	6.5	6.3	-	5.5	-
Rental Market							
October Vacancy Rate (%)	1.0	0.5	0.6	0.8	0.2	1.0	0.2
Two-bedroom Average Rent (October) ($)	723	755	800	835	4	860	3
One-bedroom Average Rent (October) ($)	589	616	661	695	5	715	3
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	82,475	81,525	86,925	89,525	-	91,725	-
Employment Growth (%)	10.3	-1.2	6.6	3.0	-	2.5	-
Unemployment rate (%)	4.9	5.5	5.9	5.0	-	4.8	-
Net Migration (B.C.)	38,646	43,654	44,047	49,700	12.8	52,800	7.9

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM), OMREB (Okanagan Mainline Real Estate Board).

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) MLS® Sales and New Listings = Total Residential. (2) MLS® Average Sale Price = Single Family Residential

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